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RAILWAY CONVENTION COMMITTEE 1965

REPORT

LOK SABHA SECRETARIAT
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I

INTRODUCTION

I, the Chairman of the Railway Convention Committee, 1965, having been authorised by the Committee to present the Report on their behalf, present this Report.

2. Railway Finance was separated from General Finance by a Resolution of the Central Legislature in September, 1924. This regulated the interest on the capital invested on the Railways and the apportionment of any surplus between the Railways and the General Finance and provided for other allied matters. The arrangements which continued with a few adjustments, have been reviewed after Independence by three successive Committees—in 1949, 1954 and 1960. The current financial year is the fifth and the final year of the 1960 convention, which was passed by the Lok Sabha on the 6th December, 1960 and adopted in the Rajya Sabha on 12th December, 1960.

3. A Committee of both the Houses of Parliament was constituted this year in pursuance of the following Resolution adopted by the Lok Sabha on the 11th May, 1965 and concurred in by the Rajya Sabha on the 13th May, 1965.

"That this House resolves that—

(i) A Parliamentary Committee consisting of 12 members of this House to be nominated by the Speaker be appointed to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other ancillary matters in connection with the Railway finance *vis-a-vis* the General Finance and make recommendations thereon by the 30th November, 1965; and

(ii) that this House recommends to the Rajya Sabha to agree to associate 6 Members from the Rajya Sabha with the Committee and to communicate the names of the members so appointed to this House."

4. At their sitting held on the 17th August, 1965 the Committee drew up the under-mentioned list of subjects for examination with reference to the above Resolution and asked the Railway Board to furnish detailed memoranda thereon:—

I. A review of the working and financial results of the Indian Railways during the five years 1961—66 (the five year period covered by the Convention Committee, 1960).

II. (a) Tentative forecast of the financial results of the Railway undertaking during the coming five years 1966—71 (on the basis of traffic anticipated and present freight rates and fares).

(b) Comparison of expected net revenue (gross earnings minus ordinary and miscellaneous working expenses) with the existing obligations of the Railways:

(i) to meet the appropriation necessary to the Depreciation Reserve Fund (Item IV below);

(ii) to pay the Dividend to General Revenues at the prescribed rate (see item III below); and

(iii) to earn a surplus (to be fed into the Development Fund) adequate to finance the expenditure on certain works chargeable to this Fund which are essential but not remunerative.

III. Consideration as to whether the present rate of dividend payable to General Revenues—4.50 per cent on the capital-at-charge upto 1963-64 and 5.75 per cent on the fresh capital invested after 31st March, 1964—is reasonable and adequate having regard to all circumstances including the borrowing rate of Government; if not, what should be the revised rate.

IV. The rate at which contribution to the Depreciation Reserve Fund should be made, in order to ensure that adequate funds are available for renewals and replacement of railway assets.

V. Review of the conclusions of the 1960 Convention Committee on—

(a) the fixed annual payments to the States, in lieu of passenger tax—what increase if any should be made in this payment and on what basis;

(b) the rate of dividend payable on the Capital-at-charge of the Northeast Frontier Railway;

(c) the feasibility of creating an Amortization Fund.

VI. The future of the Railway Revenue Reserve Fund—Should it be retained, and if so, should its scope be modified in any manner.

VII. Whether any alterations are considered necessary in the existing rules of allocation of railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund? In regard to the incidence of works at present charged to Development Fund, how should they be financed if the balance in the Development Fund at any time is inadequate for the purpose.

5. The Committee also directed the Financial Commissioner (Railways) to furnish a comprehensive note dealing, *inter-alia,* with the following points:

(a) Whether the Railways prepared a Balance Sheet annually showing their assets and liabilities? If not, could such a statement not be prepared?

(b) Precise definitions of the following expressions:

Capital-at-charge,
Capital-invested, and
Loan Capital.

(c) What is the rate of interest charged by Government from Commercial Organisations and how does it compare with the dividend paid by the Railway Undertaking to General Revenues?

(d) What are the reasons for treating the Reserves distinct from Capital-at-Charge and excluding them for purposes of calculating the dividend?

(e) What is the net worth of the Railways? What is the return on the net worth of the Railways? Which are the unremunerative lines?

6. At their sitting held on the 4th November, 1965, the Committee considered the memoranda and information (referred to in paras 4 and 5 above) submitted to them by the Railway Board and the Financial Commissioner's review. After reviewing the various aspects, *viz.,* financial prospects of the Railways during the next five years, the pattern of relationship between the Railways and General Finance and the overall economic situation in the country, the Committee came to the conclusions which are set forth in Chapter II in this Report.

7. The Committee considered and finalised the Report at their sitting held on 23rd November, 1965.

8. A statement showing the summary of the principal recommendations of the Committee is appended to this Report (Appendix III).

9. The Committee wish to place on record their great appreciation of the valuable assistance rendered to them in the course of their deliberations by the Railway Board, the Financial Commissioner, (Railways) and their staff.

II

REPORT

Review of the working of Railways during the period 1961-62 to 1965-66 and the Financial Prospects in the next quinquennium (1966-67 to 1970-71).

10. The general financial results for each year of the period covered by the 1960 convention are summarised below. The figures pertaining to the year 1960-61, the last year of the previous quinquennium are shown in the margin.

(Figures in crores of Rupees)

1960-61		1961-62	1962-63	1963-64	1964-65	1965-66 (Budget Estimate)
457	(*i*) Gross Traffic Receipts . .	501	567	632	661	716
369	(*ii*) Total expenditure including contribution to Depreciation Reserve Fund and payments to worked lines of their share of earnings .	401	444	487	543	571
(45)	(Appropriation to the Depreciation Reserve Fund) .	(65)	(67)	(80)	(83)	(85)
88	(*iii*) Net Railway Revenue . .	100	123	145	118	145
56	(*iv*) Dividend .	63	69	83	93	103
(5)	[Element of contribution to General Revenues included in (*iv*) over and above the interest charges] . . .	(8)	(8)	(12)	(11)	(15)
..	(*v*) Payment to General Revenues in lieu of tax on passenger fares .	12·5	12·5	12·5	12·5	12·5
32	(*vi*) Net Surplus .	24	42	49	13	29
521	(*vii*) Capital-at-charge at the end of each year . .	1,683	1,897	2,160	2,435	2,675

NOTE :—After the bndget estimates for 1965-66 were presented, working expenses have increased substantially on account of an increase in dearness allowance from 1st March, 1965 and increases in Excise Duties and Customs Duties and in the price of coal, steel, etc. There is, however, a better trend in traffic earnings so far than anticipated. As a result of these factors, the surplus anticipated may be affected.

11. The recommendations of the Railway Convention Committee, 1960 were accepted in full by Parliament *vide* Resolutions adopted in the two Houses in December, 1960. A statement showing the action taken on these recommendations, as furnished by the Railway Board, is given at Appendix I.

12. As stated in the Memo furnished by Railway Board goods traffic did not materialise during the quinquennium 1961-62 to 1965-66 to the extent anticipated in the year 1960. The increase in traffic year by year was rather uneven while the development of railway transport capacity progressed steadily. With an increase in the prices of material and wages the cost of the Railway's Third Plan and the working expenses increased to a larger extent than what was envisaged. Subsequent to the onset of Emergency in October, 1962, Parliament approved the Government's recommendation that the Railways should increase their appropriation to the Depreciation Fund by Rs. 10 crores per year and also increase the rate of dividend from 4¼ per cent to 4½ per cent. In the following Budget (in February, 1964) it was further decided with the approval of Parliament that the capital added after 31st March, 1964 from General Revenues to the Railways would carry a higher rate of dividend at 5.75 per cent. The Railways discharged all their financial obligations *viz.*, their dividend payments even at the increased rate that was decided upon after the Chinese aggression as well as the payments to General Revenues for transfer to the States in lieu of passenger tax and the Depreciation provisions.

13. A statement (Appendix II) furnished by the Railway Board showing the Financial forecast of the working of the Railways during the next quinquennium 1966—71, gives the position as below:

		(In crores of rupees)
(a)	Gross Traffic Receipts	4,422
(b)	Revenue Expenditure, including appropriation to Depreciation Reserve Fund and the Pension Fund, and payments to worked lines.	3,465
(c)	Works chargeable to Revenue (Open Line) . .	60
(d)	Net Revenue	897
(e)	Payment to General Revenues on the existing basis.	766
(f)	Net surplus available, from which works chargeable to the Development Fund are to be financed . .	131
(g)	Provision in the Fourth Plan for development works	150
(h)	Shortfall in the provision for development works. .	19

It will be noted that the quantum of surplus available for credit to the Development Fund would not be sufficient to meet the full obligations of the fund even if the dividend is to be charged at the existing rate. In case the rate of dividend is increased the quantum of surplus would be further reduced.

14. The Financial Commissioner, Railways suggested three alternative rates for payment of dividend to General Revenues:

(i) On the existing basis of 4.5 per cent on capital expenditure upto 31st March, 1964 and 5.75 per cent on capital expenditure thereafter, plus Rs. 63 crores in lieu of passenger fare tax.

(ii) On the basis of 5.5 per cent on Capital expenditure upto 31st March, 1964 and 5.75 per cent on capital expenditure thereafter, 1 per cent increase in the former being for the purpose of payment to States at the increased rate of Rs. 16.25 crores per year in place of the present payment of Rs. 12.5 crores per year in lieu of passenger fare tax and the balance utilised to assist the States to provide their position of the resources required for financing safety works like manned level crossings, over bridges and under bridges.

(iii) On the basis of 5.5 per cent on capital expenditure upto 31st March 1964 and 6 per cent on capital expenditure thereafter, the payment in lieu of passenger tax being substituted by a 1 per cent increase in the former.

15. In his review the Financial Commissioner made the following specific suggestions for consideration by the Committee.

(i) In respect of payment in lieu of passenger fare tax, an additional 1 per cent on the capital expenditure incurred upto 31st March, 1964 should be paid to General Revenues. Out of this contribution a sum of Rs. 16.25 crores should be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States to provide their portion of the resources required for financing Railway level crossings, over-bridges and other safety works.

(ii) The existing arrangement in regard to the adjustment of loss in the working of strategic lines may continue with a complementary provision that if the working of these strategic lines leaves a surplus, the same may be transferred to the General Revenues (upto the level of the normal dividend).

(iii) The existing arrangement in regard to dividend being paid at the average borrowing rate of Government on the capital-at-charge of the Commercial Section of the North-east Frontier Railway and on other special elements of capital may continue as at present.

(iv) The account of deferred dividend on new lines may be closed after a period of 20 years from the date of their opening extinguishing any liability for deferred dividend not liquidated within that period.

(v) The appropriation to the Depreciation Reserve Fund from Railway Revenues may be increased to an average of Rs. 130 crores per year for the quinquennium 1966—71.

(vi) The amortization of unproductive capital may be commenced with the interest earned on the balance in the Railway Reserve Fund being taken in reduction of the element of over-capitalisation, supplemented by such appropriation from Railway Revenues, from year to year as may be possible on the financial results of each year.

(vii) The present rules for allocation of Railway expenditure between Capital Revenue, Depreciation Reserve Fund and Development Fund may be maintained without alteration; and

(viii) The existing provision for temporary loans from General Revenues being advanced to the Railway Development Fund, whenever the available balance in the Development Fund is not sufficient to meet the cost of works chargeable to that Fund, may continue in the next quinquennium.

16. The Committee deal below with the various issues raised in the above suggestions made by the Financial Commissioner (Railways) and the Memoranda furnished by the Railway Board.

Rate of Dividend

17. Successive Convention Committees from 1949 have favoured the payment of annual dividend at a fixed rate which includes an element of contribution over and above the bare interest charges. There is a distinct advantage in **assuring to General Revenues a definite regular and predictable contribution from the Railways, year after year, and leaving the Railways a degree of flexibility in the internal administration of their finances. The Committee are of the opinion that the present mode of contribution does not call for a change in the next five years.**

18. After taking into account the financial prospects of the Railways during the quinquennium 1961—66 and the average rate of

Government borrowing (which was estimated in 1960 to be 3.58 per cent), the Convention Committee, 1960 recommended that the dividend rate should be fixed at 4.25 per cent and this was approved by Parliament. Accordingly, dividends were paid at this rate during the years 1961-62 and 1962-63. With the approval of Parliament this rate was raised to 4.5 per cent in February, 1963 in view of the need for mobilisation of extra resources in the emergency following the Chinese aggression of 1962. The average rate of interest on Government borrowings for 1963-64 was then estimated at 3.77 per cent. In February, 1964, with the approval of Parliament, the rate of dividend on capital invested after 31st March, 1964 was raised to 5.75 per cent. Thus distinction was made between the capital invested upto 31st March, 1964 and subsequent investments. A question was raised in the Committee whether this distinction between capital invested upto 31st March, 1964 and investments made thereafter should at all be continued and whether it was not feasible to fix one rate on the entire capital-at-charge of the Railways. It was argued that the principle of having two separate dividend rates was logical in view of the trend of interest rates, which remained reasonably steady until recently but had tended to rise in the past year or two. It was also considered reasonable to apply a substantially higher rate of interest to investments in respect of which the Railways had had notice of higher rates and to which they could apply more stringent tests of remunerativeness. Any composite dividend rate, which tried to allow both for the older lower rates and for the present gradually increasing rates of interest for Government borrowing, it was urged, would necessarily have to be based on estimates of likely trends and to that extent may result to the detriment of either General Revenues or Railways, apart from not serving any particular purpose.

19. In the circumstances it was suggested by the Railway Board that it would be appropriate to continue the rate of dividend on capital expenditure incurred upto 31st March, 1964 at the existing level of 4½% since, so far as that capital is concerned, the conditions, under which it was financed have not altered since 1963 (when this rate was fixed). However it was added that instead of paying a fixed amount of Rs. 12.50 crores per annum in lieu of passenger tax, a further addition of 1 per cent of the Capital invested upto 31st March, 1964 may be made to the quantum of dividend, thereby raising it from 4½ to 5½ per cent. As regards the rate of dividend on capital invested after 31st March, 1964, the Committee observe from the financial forecast for the five years (1966—71) furnished to them by the Railway Board (Appendix II) that after payment of the dividend even at the existing rates, the quantum of surplus available for credit to the Development Fund would not be sufficient to meet the requirements of the Railways. An increase in the rate of dividend would further

reduce this surplus. On the other hand, the rate of interest in Government borrowings is increasing steadily as shown below:

Year	Current Annual borrowing rate of interest of the Central Government	Average rate of interest on Government Borrowings	Divident rate actually applicable
1	2	3	4
1961-62 .	4·00%	3·59%	4·25%
1962-63 .	4·25%	3·66%	4·25%
1963-64 .	4·25%	3·75%	4·50%
1964-65 .	4·50%	3·84%	4·50% on Capital upto 1963-64 and 5·75% on fresh Capital.
1965-66 . .	5·00%	3·90%	

The rate of interest had thus already gone up since the rate of dividend at 5.75 per cent was fixed in 1964, and it was likely to rise further.

20. Taking into account all the factors mentioned above the Committee have come to the conclusion that the present arrangement of fixing different rates of dividend on capital invested in the Railways upto 31st March, 1964 and that invested thereafter may continue during the next quinquennium and the position might be reviewed by the next Convention Committee. As regards the rate of dividend the Committee suggest that the existing rate of dividend at 4½ per cent of the capital invested in the Railways upto 1963-64 with an addition of 1 per cent in lieu of passenger tax (as detailed in the succeeding paragraph) should be paid by the Railways to the General Revenues during the next quinquennium. As for capital invested in Railways after 31st March, 1964 the rate of dividend should be raised from 5.75 per cent to 6 per cent. The rates would, however, be subject to certain concessions recommended by the Committee later in this Report.

Payment in lieu of Passenger Fare Tax

21. A passenger fare tax was levied with effect from 15th September, 1957 under the Passenger Fare Tax Act, 1957. Up to 31st March, 1961 the actual collection made was passed on to the State Governments concerned, less 0.6 per cent retained by the Railways as the cost of collection. It was suggested to the Railway Convention Committee of 1960 that in view, on the one hand, of the need for the Railways to have some flexibility in adjusting passenger fares to meet their growing commitments, and on the other, of the needs of the States for funds from this source to meet their developmental obligations, it would be an advantage for the tax to be merged with the existing fares, and the Railways might make every year a lump-sum payment for transfer to the States, equal to the average collection of passenger tax during the preceding years. The Convention Committee of 1960 accepted this suggestion as reasonable and recommended that the amount payable by the Railways may be fixed at Rs. 12.50 crores per year for the quinquennium 1961—66 which was the average of the actual payments for the years 1958-59 and 1959-60.

It has been reported to the Committee that under the system of such fixed payments there is no provision for an increase in the amount available for distribution to the States corresponding to growth in the volume of Railway passenger traffic. It was added that this question also came up before the Finance Commission, 1965, when the States had expressed the view that the fixation of a grant at a particular level had deprived them of a potentially elastic source of revenue. They had urged that the grant should be raised in proportion in which Railway passenger earning had increased since the merger of the passenger tax.

22. In order to augment the contribution being made to the States, the Railway Board has suggested that keeping in view the rate of increase in traffic during the last five years and the expected increase in subsequent years, the annual payment of Rs. 12.5 crores may be increased to Rs. 16.25 crores. It has also been suggested that in order to cover the extra payment of Rs. 3.75 crores per year and also to make available to General Revenues a further sum which could be earmarked to assist the States to provide their portion of the resources required for financing railway safety works, the need for which has been stressed by the Railway Accidents Enquiry Committee an increase of 1 per cent should be made on the dividend of 4½ per cent now payable on the Capital-at-charge of the Indian Railways as on 31st March, 1964, raising it to 5½ per cent. **The Committee agree with the suggestion. They suggest that in respect of payment in lieu of passenger tax, instead of a fixed amount of Rs. 12.50 crores per year as at present, an additional 1 per cent on the capital invested upto 31st March, 1964 should be paid to General Revenues. Out of this amount a sum of Rs. 16.25 crores should be passed**

on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States (in the same proportion as their shares of the passenger fare tax) to provide their portion of the resources required for financing safety works such as manned level crossings, over bridges and under bridges. The Committee also suggest that the mechanics of this arrangement should be finalised at an early date, if not already done.

Loss on strategic lines

23. No interest is payable to General Revenues on the capital invested on strategic lines. The Convention Committee of 1960 recommended that the annual loss on the working of strategic lines should also be borne by General Revenues. The total capital invested on strategic lines is expected to be about Rs. 63 crores at the end of the Third Plan, and the loss in their working in the current year is expected to be of the order of Rs. 1.25 crores. It was urged before the Committee that although the strategic lines were incurring losses, circumstances could change and a situation could arise in which the gross earnings, may leave a small surplus over the total working expenses so that the Railway does not make a direct loss but still continues to be unremunerative. It was accordingly suggested that under such circumstances while the line should continue to be treated as strategic, the excess of gross earnings over total working expenses and share of charges like the cost of the Railway Board, Audit etc., should be paid to the General Revenues up to the level of the normal dividend.

24. The Committee agree that the extant arrangement in regard to the adjustment of loss in the working of strategic lines may continue with a complementary provision that if the working of these strategic lines leaves a surplus, the same may be transferred to the General Revenues (upto the level of the normal dividend).

North-East Frontier Railway

25. In para 18 of their Report, the Railway Convention Committee, 1954 had recommended that the element of over-capitalisation should be precisely assessed by the Railway Board and on that portion of the loan capital, the Railways should pay the dividend at the rate equivalent to the average borrowing rate charged by the Government of India to Commercial Departments from year to year. This concession was extended by the Railway Convention Committee, 1960 to the capital-at-charge of the Northeast Frontier Railway (other than the clearly strategic portions). It was thus recommended that till such time as the line becomes productive or the next Convention Committee review the position, whichever is earlier, the rate of dividend payable on the capital-at-charge should be at the average borrowing rate of Government.

26. In a Memorandum submitted to the Committee it has been urged that the conditions on which the decision of the 1960 Convention Committee was based still persist. It has been stated that the line continues to provide a vital link and that in spite of the great improvement in the operating results, the final result in the working of the Railway is still a loss. The net loss incurred on the Railway during the year 1961-62 was Rs. 9.86 crores. It was estimated to be Rs. 7.78 crores in the budget estimates of 1965-66.

27. The Committee have come to the conclusion that the existing arrangement in regard to dividend being paid at the average borrowing rate of Government on the capital-at-charge of the Commercial Section of the Northeast Frontier Railway and other special elements of capital may continue as at present.

Capital invested on new lines

28. The Railway Convention Committee, 1954 had recommended in para 19 of their Report that the dividend payable to the General Revenues on the capital-at-charge of the new lines should be computed at the average borrowing rate charged to the commercial Departments and also that a moratorium be granted in respect of dividend payable on the capital invested on the new lines during the period of construction and up to the end of fifth year of their opening for traffic, the deferred amount being paid from the sixth year onwards in addition to the current dividend out of the net income of the new lines. The Convention Committee 1960 further clarified that the deferred dividend was to be paid from the sixth year onwards only if the net income of the new lines left a surplus after the payment of the current dividend. It has been represented to the present Committee that the arrangement of an indefinite deferred liability involves maintenance of separate accounts for a large number of such lines for periods without limit until all the deferred dividend has actually been earned and paid in addition to the current dividend. In certain cases, new lines may not develop the capacity to pay even the current dividend after 5 years of construction, though the Railways have a liability to pay this amount. In order thus to avoid the labour of keeping special accounts for decades, it has been suggested to the Committee that it would suffice if separate accounts are kept, after the initial period of five years' deferment, for a further period of 15 years. Thereafter, it would be appropriate to close the account treating the undischarged liability, if any, as extinguished at the end of this period. **The Committee agree with this suggestion that the account of deferred dividend on new lines may be closed after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period.**

Contribution to the Depreciation Reserve Fund

29. On the basis of the forecast of the estimates of expenditure from the Fund during the Third Five Year Plan, under the 1960 Convention, the annual contribution to the Depreciation Reserve Fund was fixed at a progressive figure rising from Rs. 65 crores in 1961-62 to Rs. 75 crores in 1965-66, giving an average of Rs. 70 crores per year over the five year period. In 1963-64, Parliament approved a further increase of Rs. 10 crores per year which was effective for the last three years of the quinquennium. The annual contribution to the Depreciation Fund from Revenue and annual withdrawal from the Depreciation Fund to finance renewals averaged during the last three Convention periods (1950—55, 1955—61 and 1961—66) as follows:

(In crores of rupees)

Convention Period	Annual contribution from Revenue	Annual withdrawal from the Fund	Balance at the end of the Convention period
1950-55 .	30	37·45	100·69
1955-61	45	61·05	19·79
1961-66 .	76	69·28	66·88

According to the Railway Board the total expenditure envisaged from the Depreciation Reserve Fund during the fourth plan (1966—71) for the purpose of replacement of locomotives, rolling stock and track renewals etc., is estimated at Rs. 650 crores as follows:

(In crores of rupees)

Rolling Stock	282
Track Renewals (net)	258
Line Capacity Works	50
Bridges	20
Signalling	10
Machinery & Plant	18
Other items	12
	650

30. The Railway Board has accordingly suggested that the contribution to the Fund should be Rs. 650 crores during the next five year

period, the annual contribution rising progressively from Rs. 100 crores in 1966-67 to Rs. 160 crores in 1970-71 as shown below:

(Rupees in crores)

1966-67	100
1967-68	115
1968-69	130
1969-70	145
1970-71	160
	650

It has also been pointed out by the Railway Board that this is the described target but the Railway Administration may be allowed a certain degree of flexibility to take account of the financial position.

The Committee agree with the above proposal and recommend that the appropriation to Depreciation Reserve Fund from Railway Revenues may be increased to an average of Rs. 130 crores per year for the quinquennium 1966—71 or as close thereto as possible, taking account of the financial position.

Creation of an Amortization Fund

31. The feasibility of creating an Amortization Fund has come up for consideration by successive Convention Committees since 1949. They had come to the conclusion that, in view of the difficult financial position of the Railways in each of the Convention periods, the proposal for the creation of an Amortization Fund would have to be postponed, but this question should not be lost sight of by future Convention Committees. The tentative financial forecast for the Fourth Plan (Appendix II) reveals that the surplus available after meeting all revenue demands including payments to General Revenues will not be enough to meet fully the Plan provision for expenditure on developmental works. However, in deference to the recommendations of the successive Convention Committees in this regard, the Railway Board propose to make a modest beginning in this direction in the ensuing Convention period by appropriating from 1966-67 onwards at least a token amount from Railway Revenues for the main purpose of reduction of the element of over-capitalisation in the Capital-at-charge of the Railways. The quantum of appropriation would have to be flexible as it would depend on the amount of surplus available after meeting the requirements of the Railway Development Fund. It has also been suggested that since the Revenue Reserve Fund of the Railways has reached a sizeable figure (Rs. 63 crores approximately) it may be possible to utilise the interest earned therefrom each year (about Rs. 2½ crores) to repay General Finance and bring down the element of over-capitalisation. This will

not affect the real position of General Finance in any way prejudicially and will also not have any financial effect to the advantage or detriment of Railway Finance.

32. **The Committee feel that an arrangement for the gradual amortization of the Capital-at-charge of the Railways to the extent possible would eventually be of benefit to the Railways and to the users of railway transport alike. They recommend that the amortization of unproductive capital may be commenced with the interest earned on the balance in the Railway Reserve Fund being taken in reduction of the element of over-capitalisation, supplemented by such appropriation from Railway Revenue, from year to year as may be possible on the financial results of each year. This will enable the Railway Board to bring about a progressive reduction in the element of over-capitalisation, which is stated to be of the order of Rs. 119 crores approximately.**

Rules of allocation of Railway Expenditure

33. The rules of allocation of railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund were substantially modified by the Railway Convention Committee of 1949. The 1954 Convention Committee accepted the principle introduced by the 1949 Committee and made certain further amendments to the Rules of allocation. The Railway Convention Committee of 1960 accepted the position and agreed that the then rules of allocation of railway expenditure "might be retained without any modification during the next five years." The Committee were informed that the existing principles of allocation have worked satisfactorily during the current Convention period and that no change in the extant rules of allocation need be made. **The Committee agree with the view that the existing rules of allocation of Railway Expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund may be maintained without alteration.**

Financing of the Development Fund by means of temporary loans from General Revenues

34. The Railway Convention Committee, 1954 had recommended in para 30 of their Report that in the event of the Development Fund not being in a position to meet the programme of expenditure from its resources, monies should be advanced from General Revenues as temporary loans on which the Railway should be required to pay interest at the average borrowing rate chargeable to commercial Departments. The 1960 Convention Committee recommended the retention of this provision. There was, however, no occasion for making use of this provision during the period covered by 1960 Convention. It is now observed from the financial forecast for the

next quinquennium (Appendix II) that the Revenue surplus available for appropriation to the Development Fund will not be sufficient to cover the expenditure of Rs. 150 crores during the Plan period on works chargeable to Development Fund. It is, therefore, possible that the Railways may have to resort to taking temporary loans to meet the deficit in the Development Fund. **The Committee, therefore, recommend that the existing provision for temporary loans from General Revenues being advanced to the Railway Development Fund, whenever the available balance in the Development Fund is not sufficient to meet the cost of works chargeable to that Fund may continue in the next quinquennium.**

35. The Railway Convention Committee, 1960 had also recommended that the Development Fund besides meeting the cost of Labour Welfare Works, etc., should include a minimum allocation of Rs. 3 crores per annum for Users' amenities as hitherto. The Committee recommend that this provision for the Users' amenities may be raised from Rs. 3 to Rs. 4 crores per annum during the next five-year period.

NEW DELHI;
November 24, 1965.
Agrahayana 3, 1887.

S. V. KRISHNAMOORTHY RAO,
Chairman,
Railway Convention Committee.

APPENDIX I

MINISTRY OF RAILWAYS

RAILWAY BOARD

Statement showing action taken on the recommendations of the Railway Convention Committee, 1960—following strictly the serial numbers shown in the summary of the principal recommendations appended to the Committee's report.

Sl. No.	Recommendation giving reference to the paragraph of the Report	Action taken
1	2	3
1 & 2	Paras 13 and 15.—In the opinion of Committee the present mode of contribution *viz.* a fixed rate of dividend by the Railways to General Revenues does not call for any change in the next five years. The rate of dividend to be paid by the Railways to General Revenues should be fixed at 4·25% during the five years 1961-66.	Implemented. The rate of dividend was enhanced to (*i*) 4·50% for the year 1963-64 and (*ii*) further revised for the years 1964-65 and 1965-66 as 4·50% on capital upto 1963-64 and 5·75% on fresh capital, with the approval of the Parliament through the Railway Budget for the year 1963-64 and 1964-65 respectively. Table I gives the payments made to the General Revenues, analysing separately interest at the average rate and contribution over and above the average rate of interest.
3	Para 16.—The annual loss in the working on strategic lines should be borne by General Revenues.	Implemented. The total amount of loss recovered from General Revenues on account of the strategic sections of Northern Railway and North-east Frontier Railway for each of the years covered by the

1	2	3
		1960 Convention period are furnished below : (In crores of Rs.)

Year	Northern Railway	Northeast Frontier Railway	Total
1961-62	0·18	..	0·18
1962-63	0·17	..	0·17
1963-64	0·13	0·88	1·01
1964-65	0·13	1·38	1·51

1	2	3
4	Para 17.—The Committee accept the suggestion of the Railway Board that the Capital-at-charge of the Northeast Frontier Railway, other than the clearly strategic portion thereof, should be regarded as unproductive and recommend that till such time as the line becomes productive or the next Convention Committee review the position, whichever is earlier, the rate of dividend payable on the Capital-at-charge should be at the average borrowing rate of Government.	Implemented.
5	Para 18.—The total contribution to the Depreciation Reserve Fund should be Rs. 350 crores during the next quinquennium.	Implemented. The total contribution to the Depreciation Reserve Fund was further enhanced by Rs. 10 crores per annum during the last three years of the 1960 Convention period with the approval of the Parliament through the Railway Budget for the year 1963-64.
6	Para 19.—The Committee are inclined to accept the suggestion that the existing rules of allocation of Railway expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund might be retained without any modification during the next five years.	Implemented. No change has been made during the current Convention period in the rules of allocation in this regard.

1	2	3
7	Para 20.—The Committee are averse to the curtailment or limiting the expenditure on works met out of the Development Fund which in their opinion are as important as additions financed from Capital. They, therefore, see no alternative but to continue the facility of providing temporary loans from General Revenues to finance the Railway Development Fund during the next five years, unless the net surplus is able to meet in full the requirements of the Fund.	There was no occasion for obtaining temporary loans from General Revenues for this purpose as the net surpluses were adequate for the purpose.
	The Committee endorse the proposal of the Financial Commissioner (Railways) that the outstanding liability of the Development Fund to the General Finance as on 31-3-1961 should be liquidated in the *ad hoc* manner indicated in the last sub-para of para 11 of this Report so that the Railways could start on the Third Plan period with a clean slate in regard to this liability.	Implemented. An amount of Rs. 16·82 crores representing the cost of certain new lines under construction on 1-4-1955 which were charged to Development Fund under the rules of allocation in existence on that date was adjusted *ad hoc* to Capital in 1961-62 by credit to the Development Fund. This together with the improved surplus of the year 1960-61 transferred to the Fund enabled it to open with a credit balance of Rs. 6·93 crores against a nil balance anticipated when the 1960 Convention Committee made their recommendation. There was thus no need to transfer any amount from Revenue Reserve Fund to the Development Fund.
8	Para 21.—The Committee recommend that the Railway Development Fund, besides meeting the cost of Labour Welfare Works etc., should include a minimum allocation of Rs. 3 crores per annum for Users' amenities as hitherto.	The total expenditure on Passenger and other Railway Users' amenities chargeable to the Railway Development Fund during the 1960 Convention period is expected to be of the order of Rs. 15 crores, even though the annual allocation has varied from 3 crores to 4 crores.

1	2	3
9	Para 23.—The suggestion made by the Railway Board that the passenger tax at the existing rate might be merged with passenger fare from 1st April, 1961 and that the State Governments might be paid a fixed amount based on the average collections in the period 1957-61 is reasonable. The Committee recommend that the fixed amount payable by the Railways may be Rs. 12·50 crores per year during the quinquennium 1961-66 representing the average of the actual collections for the years 1958-59 and 1959-60.	Implemented.
10	Para 24.—While the Committee appreciate that the financial position of the Railways during the next qninquennium will not be favourable for the creation of an Amortisation Fund, they nevertheless feel that this question should not be lost sight of in as much as in the context of the repatriation of all the dollar loans, it will assume importance.	The matter is dealt with in this Report. (Please *see* para 31).
11	Para 26.—With reference to the recommendation of the Railway Convention Committee, 1954, contained in para 19 of their Report, the Committee are of the view that the deferred dividend on new lines should be paid from the sixth year onwards only if the net income of the new lines leaves a surplus after payment of the current dividend.	The observations are noted.

APPENDIX II

Fourth Five Year Plan—Financial Forecast

(Figures in crores of rupees)

Head	1966-67	1967-68	1968-69	1969-70	1970-71	Total IV Plan 1966—71
1	2	3	4	5	6	7
I. Capital-at-charge at the end of each year . . .	2,885	3,100	3,325	3,565	3,790	
II. Gross Traffic Receipts :						
Passengers . .	232	242	253	263	274	1,264
Other Coaching .	37	37	38	38	39	189
Goods . .	485	520	569	612	671	2,857
Sundry . .	20	21	22	24	25	112
TOTAL .	774	820	882	937	1,009	4,422
III. Expenses :						
(a) Ordinary Working Expenses . . .	497	518	542	565	599	2,721
(b) Net Miscellaneous Expenditure including payments to worked lines .	5	5	6	6	6	28
(c) Open Line Works—Revenue	12	12	12	12	12	60
IV. Appropriation to Depreciation Reserve Fund .	100	115	130	145	160	650
V. Appropriation to Pension Fund .	13	13	13	13	14	66

1	2	3	4	5	6	7
VI. Net Revenue .	147	157	179	196	218	897
VII. Payment to General Revenues inclusive of the payment in lieu of tax on passenger fares:						
*(A) If dividend is at 4·50% / 5·75% . .	129	141	153	166	177	766
(B) If dividend is at 5·50% / 5·75% . .	135	147	158	171	183	794
(C) If dividend is at 5·50%/ 6.00% . .	137	148	161	173	186	805
VIII. Net Surplus under alternative—						
(a) of item VII-A	18	16	26	30	41	131
(b) of item VII-B	12	10	21	25	35	103
(c) of item VII-C	10	9	18	23	32	92
IX. Average annual appropriation that would be necessary to make from the final net surplus to the Development Fund in order to fulfil Fourth Plan objectives . .	30†	30†	30†	30†	30†	150†

*Existing rate *i.e.* Dividend on Capital at 4·5% upto 1963-64 and 5·75% on fresh capital thereafter and includes an annual amount of Rs. 12·5 crores paid to General Revenues in lieu of tax on passenger fares.

†Includes Rs. 15 crores on the average annually—or Rs. 75 crores in the five year period as a whole—to meet the cost of Users' amenities & Labour Welfare Works only.

APPENDIX III

Summary of the principal recommendations of the Railway Convention Committee, 1965

Sl. No.	Para of the Report	Recommendation
1	2	3
1	17	There is a distinct advantage in assuring to General Revenues a definite, regular and predictable contribution from the Railways, year after year, and leaving the Railways a degree of flexibility in the internal administration of their finances. The Committee are of the opinion that the present mode of contribution does not call for a change in the next five years.
2	20	The Committee have come to the conclusion that the present arrangement of fixing different rates of dividend on capital invested on the Railways upto 31st March, 1964, and that invested thereafter may continue during the next quinquennium and the position might be reviewed by the next Convention Committee. As regards the rate of dividend the Committee suggest that the existing rate of dividend at $4\frac{1}{2}$ per cent of the capital invested in the Railways upto 1963-64

1	2	3
		with an addition of 1 per cent in lieu of passenger tax (as detailed in the succeeding paragraph) should be paid by the Railways to the General Revenues during the next quinquennium. As for capital invested in Railways after 31st March, 1964 the rate of dividend should be raised from 5·75 per cent to 6 per cent. The rates would, however, be subject to certain concessions recommended by the Committee later in this Report.
3	22	The Committee suggest that in respect of payment in lieu of passenger tax, instead of a fixed amount of 12·50 crores per year as at present, an additional 1 per cent on the capital invested upto 31st March, 1964 should be paid to General Revenues. Out of this amount a sum of Rs. 16.25 crores should be passed on to the States as payment in lieu of passenger fare tax and the balance utilised to assist the States (in the same proportion as their shares of the passenger fare tax) to provide their portion of the resources required for financing safety works such as manned level crossings, over bridges and under bridges. The Committee also suggest that the mechanics of this arrangement should be finalised at an early date, if not already done.
4	24	The Committee agree that the extant arrangement in regard to the adjustment of loss in the working of strategic lines may continue with a complementary provision that if the working of these strate-

		gic lines leaves a surplus, the same may be transferred to the General Revenues (upto the level of the normal dividend).
5	27	The Committee have come to the conclusion that the existing arrangement in regard to dividend being paid at the average borrowing rate of Government on the capital-at-charge of the Commercial Section of the Northeast Frontier Railway and on other special elements of capital may continue as at present.
6	28	The Committee agree with the suggestion that the account of deferred dividend on new lines may be closed after a period of 20 years from the date of their opening, extinguishing any liability for deferred dividend not liquidated within that period.
7	30	The Committee agree with the proposal made in para 30 of this Report and recommend that the appropriation to Depreciation Reserve Fund from Railway Revenues may be increased to an average of Rs. 130 crores per year for the quinquennium 1966—71 or as close thereto as possible taking account of the financial position.
8	32	The Committee feel that an arrangement for the gradual amortization of the Capital-at-charge of the Railways to the extent possible would eventually be of benefit to the Railways and to the users of railway transport alike. They recommend that the amortization of unproductive capital may be commenced with the interest earned on the balance in the Railway Reserve Fund being taken in reduction of the element of over-capitalisation, supplemented by such appropriation from Railway Revenues, from year to year as may be possible on the financial results of each year. This will

1	2	3
		enable the Railway Board to bring about a progressive reduction in the element of over-capitalisation, which is stated to be of the order of Rs. 119 crores approximately.
9	33	The Committee agree with the view that the existing rules of allocation of Railway Expenditure between Capital, Revenue, Depreciation Reserve Fund and Development Fund may be maintained without alteration.
10	34	The Committee recommend that the existing provision for temporary loans from General Revenues being advanced to the Railway Development Fund, whenever the available balance in the Development Fund is not sufficient to meet the cost of works chargeable to that Fund may continue in the next quinquennium.
11	35	The Committee recommend that the provision for the users' amenities to be provided out of Railway Development Fund may be raised from Rs. 3 crores to Rs. 4 crores per annum during the next five year period.

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